

December 2005

Flash Report

The Employees' Retirement System of the
County of Milwaukee

MERCER

Investment Consulting



Marsh & McLennan Companies

Trustees' Summary

The Total Fund had an aggregate market value of approximately \$1.5 billion at the end of December. The Total Fund gained 1.7% during the month, leading the Reference Index by 20 basis points. 2005 as a whole was a strong year for the Fund with an absolute return of 9.5%, 230 basis points ahead of the Reference Index.

The domestic equity markets produced mixed results in December as large cap equity, as measured by the Russell 1000 Index, gained 0.1% and small cap equity, as measured by the Russell 2000 Index, returned -0.5%. Value outperformed growth in the large cap arena while growth outperformed value in small cap market.

The international equity markets performed well during the month as the EAFE Index of developed markets gained 4.7% in US dollar terms and emerging market equities, as measured by the MSCI Emerging Markets Index, increased 5.9%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, returned 1.0% in December. High yield issues slightly underperformed the broad market, gaining 0.9% as measured by the Merrill Lynch Yield Index.

Recommendations and Comments

- The due diligence meetings are in the process of being scheduled for the year. The mid-cap managers appointed early 2005 will present in January and February, with the (currently) worst relative performing managers, Artisan and Ariel, presenting in March and April.

- The Investment Committee proposal is for the face to face investment manager due diligence to be carried out with the full board (see page 10 for the proposed schedule). Additional research will be scrutinized by the committee in advance of the meetings with managers whose performance has highlighted the need for specific review, according to the terms of the Investment Policy.

- Artisan recently announced it is in the process of registering a new mutual fund called Opportunistic Value. The new fund will be managed by Artisan's existing small and mid cap value teams. This announcement is concerning in light of the current size of the team (the value side is covered by a three person team consisting of James Kieffer, Scott Satterwhite and George Serl) and Artisan's lack of a definitive plan to add additional resources. This does not have a direct impact on the mid cap growth strategy used in the plan but is a concern for the firm as a whole and specifically for the group the Board interviewed for mid cap core in 2005.

- The Fund is currently overweight mid/small cap equity and high yield fixed income and underweight core fixed income relative to the new investment policy.

MANAGER REPORTED PERFORMANCE
As of December 31, 2005

	Assets (\$ millions)						Since Inception	Inception Date
	December	1 Yr	3 Yrs	5 Yrs	10 Yrs			
Total Fund (1)	1,504.30	1.7	9.5	16.1	7.8	9.4	-	
vs. Composite Market Index		1.5	7.2	14.5	6.3	8.4	-	
LARGE CAP VALUE EQUITY MANAGER								
Boston Partners	153.39	1.5	12.0	18.4	7.0	11.7	12.3	8/1/95
Boston Partners - Net		1.5	11.8	18.1	6.8	11.4	12.0	
vs. Russell 1000 Value + 1% S&P 500 + 1%		0.7	8.1	18.5	6.3	11.9	12.7	
		0.1	5.9	15.4	1.5	10.1	10.8	
LARGE CAP GROWTH EQUITY MANAGER								
Mellon Capital Management - Ru 1000 Growth Index	96.65	-0.3	5.3	13.3	N/A	N/A	-1.1	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		-0.3	5.2	13.2	N/A	N/A	-1.1	
vs. Russell 1000 Growth		-0.3	5.3	13.2	-3.6	6.7	-1.1	
LARGE CAP EQUITY INDEX								
Mellon Capital Management - S&P 500	112.19	0.0	5.0	14.4	0.6	9.1	10.6	4/13/95
Mellon Capital Management - S&P 500 - Net		0.0	4.9	14.4	0.6	9.1	10.6	
vs. S&P 500		0.0	4.9	14.4	0.5	9.1	10.6	
MID CAP VALUE EQUITY MANAGER								
Hotchkis & Wiley	42.88	2.0	N/A	N/A	N/A	N/A	11.5	2/18/05
Hotchkis & Wiley - Net		2.0	N/A	N/A	N/A	N/A	10.7	
vs. Russell Mid Cap Value		1.0	12.6	24.4	12.2	13.7	11.4	
MID CAP GROWTH EQUITY MANAGER								
Artisan Partners	43.21	1.0	10.3	19.5	4.8	N/A	4.8	6/12/00
Artisan Partners - Net		0.9	9.4	18.6	4.0	N/A	4.0	
vs. Russell Mid Cap Growth		1.1	12.1	22.7	1.4	9.3	-3.1	

(1) Total Fund returns represent actual returns through 9/30/2005 and estimated performance thereafter.

MANAGER REPORTED PERFORMANCE
As of December 31, 2005

	Assets (\$ millions)	Assets					Since Inception	Inception Date
		December	1 Yr	3 Yrs	5 Yrs	10 Yrs		
MID CAP CORE EQUITY								
EARNEST Partners	39.43	0.9	N/A	N/A	N/A	N/A	N/A	13.6
EARNEST Partners - Net		0.7	N/A	N/A	N/A	N/A	N/A	12.6
vs. Russell Mid Cap Index		1.0	12.7	23.8	8.5	12.5		12.1
SMALL CAP EQUITY MANAGERS								
Reinhart & Mahoney	10.99	0.5	N/A	N/A	N/A	N/A	N/A	12.3
Reinhart & Mahoney - Net		0.5	N/A	N/A	N/A	N/A	N/A	12.1
vs. Russell Mid Cap Index		1.0	12.7	23.8	8.5	12.5		12.1
INTERNATIONAL EQUITY MANAGERS								
Westfield Capital Management	44.22	0.1	6.6	20.7	N/A	N/A	N/A	5.1
Westfield Capital Management - Net		N/A	N/A	N/A	N/A	N/A	N/A	N/A
vs. Russell 2000 Growth		-0.1	4.2	20.9	2.3	4.7		3.8
Artel	40.00	-2.6	0.7	18.1	12.6	15.9	16.1	11/30/95
Artel - Net		-2.7	0.3	17.6	12.1	15.4	15.7	
vs. Russell 2500 Value		-0.1	7.7	23.8	13.4	13.9	14.0	
vs. Russell 2500 + 2%		0.4	10.1	25.0	11.1	13.5	13.6	
INTERNATIONAL EQUITY MANAGERS								
Capital Guardian	79.34	6.5	19.4	23.2	6.1	11.2	10.3	9/1/94
Capital Guardian - Net		6.5	18.9	22.6	5.6	10.6	9.7	
vs. EAFE + 1%		4.7	15.0	25.2	5.9	7.2		7.1
Grantham, Mayo	132.50	5.3	17.9	31.1	15.2	11.5	11.5	4/13/95
Grantham, Mayo - Net		5.3	17.0	30.1	14.3	10.7	10.7	
vs. EAFE + 1%		4.7	15.0	25.2	5.9	7.2		7.3

MANAGER REPORTED PERFORMANCE
As of December 31, 2005

	Assets (\$ millions)	December					Since Inception	Inception Date
		1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception		
INTERNATIONAL SMALL CAP EQUITY MANAGER								
Capital Guardian	53.87	9.5	44.0	41.9	13.7	N/A	11.1	10/31/97
Capital Guardian - Net		9.4	43.2	41.1	13.1	N/A	10.5	
vs. MSCI World Ex U.S. Small Cap + 1%		7.8	23.9	36.2	15.5	6.9	9.5	
CORE FIXED INCOME MANAGERS								
JPMorganChase	111.78	1.0	N/A	N/A	N/A	N/A	1.9	11/1/05
JPMorganChase - Net		1.0	N/A	N/A	N/A	N/A	1.9	
vs. LB G/C + 0.5%		1.0	2.9	4.2	6.6	6.7	1.6	
LB Aggregate + 0.5%		1.0	2.9	4.1	6.4	6.7	1.5	
NCM	0.13	0.5	4.5	4.3	6.1	N/A	6.5	10/31/95
NCM - Net		N/A	N/A	N/A	N/A	N/A	N/A	
vs. LB G/C + 0.5%		1.0	2.9	4.2	6.6	6.7	6.9	
LB Aggregate + 0.5%		1.0	2.9	4.1	6.4	6.7	6.9	
Mellon Capital Management	209.56	1.0	2.5	3.6	5.9	N/A	6.2	1/31/96
Mellon Capital Management - Net		1.0	2.4	3.6	5.9	N/A	6.2	
vs. LB Aggregate		1.0	2.4	3.6	5.9	6.2	6.2	
Loomis, Sayles	91.20	1.0	3.2	8.5	10.0	8.5	10.1	6/30/91
Loomis, Sayles - Net		1.0	3.1	8.4	9.9	8.4	10.0	
vs. Fixed Income Reference Index + 0.5% (1)		1.0	2.9	4.1	6.4	6.6	8.2	
LB Aggregate + 0.5%		1.0	2.9	4.1	6.4	6.7	8.0	

(1) The Fixed Income Reference Index consists of the 50/50 until May 1999 and the Lehman Brothers Aggregate Index thereafter.

MANAGER REPORTED PERFORMANCE
As of December 31, 2005

HIGH YIELD FIXED INCOME MANAGER	Assets (\$ millions)	Assets					Since Inception	Inception Date
		December	1 Yr	3 Yrs	5 Yrs	10 Yrs		
Loomis, Sayles	146.70	1.2	4.3	15.4	11.4	9.3	12.5	11/30/82
Loomis, Sayles - Net		1.2	4.2	15.3	11.3	9.2	12.4	

vs. Merrill Lynch High Yield + 1.5%

REAL ESTATE MANAGERS

ING Clarion Real Estate Securities	60.06	0.7	13.5	28.1	18.6	N/A	13.1	1/13/97
ING Clarion Real Estate Securities - Net		0.7	13.1	27.6	18.2	N/A	12.6	

vs. Wilshire REIT Index + 1%

VENTURE CAPITAL MANAGERS

Adams Street Partners (1)	16.30	N/A	N/A	N/A	N/A	N/A	--	10/1/92
Adams Street Partners (1)	0.40	N/A	N/A	N/A	N/A	N/A	--	1/2005
Progress (1)	1.10	N/A	N/A	N/A	N/A	N/A	--	7/1/95

(1) Market value is as of June 30, 2005

ASSET ALLOCATION
As of December 31, 2005

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Large Cap Equity	24.1 %	20.0 %	17.0 %	25.0 %
Boston Partners	10.2			
Mellon Capital Russell 1000 Growth	6.4			
Mellon Capital S&P 500	7.5			
Total Medium & Small Cap Equity	14.7 %	11.0 %	7.0 %	14.0 %
Artisan Partners	2.9			
Hotchkis & Wiley	2.9			
EARNEST Partners	2.6			
Reinhart & Mahoney	0.7			
Westfield	2.9			
Arrel	2.7			
Total International Equity	14.1 %	16.0 %	11.0 %	21.0 %
Capital Guardian	5.3			
Grantham, Mayo	8.8			
Int'l Small Cap Equity	3.6 %	4.0 %	0.0 %	7.0 %
Capital Guardian	3.6			
Venture Capital	1.2 %	3.0 %	0.0 %	5.0 %
TOTAL EQUITY	57.6 %	54.0 %	37.0 %	74.0 %

ASSET ALLOCATION
As of December 31, 2005

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Total Core Fixed Income	27.4 %	35.0 %	31.0 %	41.0 %
JP Morgan	7.4			
NCM	0.0			
Mellon Capital	13.9			
Loomis, Sayles	6.1			
High-Yield Fixed Income	9.8 %	7.0 %	5.0 %	9.0 %
Loomis, Sayles	9.8 %			
Cash	1.2 %	1.0 %	0.0 %	5.0 %
TOTAL FIXED INCOME	38.4 %	43.0 %	34.0 %	55.0 %
REAL ESTATE	4.0 %	3.0 %	0.0 %	7.5 %
ALTERNATIVE INVESTMENTS	0.0 %	0.0 %	0.0 %	0.0 %
TOTAL	100.0 %	100.0 %		

Average Credit Quality
of current Fixed Income managers

JPMorgan	AA+
Mellon Capital Management:	AA1/AA2
Loomis Investment Grade:	AA+
Loomis High Yield:	BB

Mercer Ratings for
Current Managers

Mercer	
<i>Large Cap Eq</i>	Rating
Boston Partners	A
Mellon Russell 1000 Growth	A
Mellon S&P 500	A

<i>Mid & Small Cap Eq</i>	
Artisan	A
Hotchkis & Wiley	A
EARNEST Partners	B+
Reinhart & Mahoney	B
Westfield	A-
Ariel	B

<i>Int'l Eq</i>	
Cap. Guardian	B+
Grantham, Mayo Intl Intrinsic Value	A
Grantham, Mayo Intl Small Company	A

Mercer	
<i>Int'l Small Cap Eq</i>	Rating
Cap. Guardian	B

<i>Core Fixed</i>	
JP Morgan	A
NCM Capital Management	N
Mellon	A
Loomis, Sayles	B+(T)

<i>High Yield Fixed</i>	
Loomis, Sayles	B+(T)

<i>Real Estate</i>	
ING Clarion	N

The Employees' Retirement System of the County of Milwaukee Proposed Investment Manager Due Diligence 2006

<u>Date</u>	<u>Managers Invited to Present</u>
18-January	Hotchkis & Wiley
09-February	Reinhardt & Mahoney and EARNEST Partners
15-March	Artisan*
19-April	Ariel*
17-May	Boston Partners
21-June	
19-July	Adams Street Partners and ING Clarion
16-August	Capital Guardian and GMO
20-September	
18-October	Westfield Capital
15-November	Loomis Sayles (both Core and High Yield)
20-December	JP Morgan

*Subject to additional performance review at the Investment Committee meeting prior to the Pension Board meeting. Managers are not required to attend Investment Committee meetings.

Notes:

The format and timings of all investment manager presentations are to be dictated by the Pension Board. Suggested discussion outline attached for all but venture capital, real estate managers and Loomis Sayles (who have to present two strategies under management). The middle of the year has been deliberately left less crowded to allow manager presentations to be brought forward should issues arise. This would also serve to free up the final quarter of the year.